

STATE OF MAINE  
PUBLIC UTILITIES COMMISSION

Docket No. 2001-679

February 4, 2003

NORTHERN UTILITIES, INC.,  
Petition for Approval of the Use of  
Financial Instruments as a Part of  
A Hedging Program

ORDER ON  
RECONSIDERATION

Welch, Chairman; Nugent and Diamond, Commissioners

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**I. SUMMARY**

This Order grants Northern Utilities's (NU or the Company) request and modifies our January 7<sup>th</sup> Order by establishing that both Time- and Price-Triggered hedging components of Northern's hedging the plan will use the same 12-month buying period.

**II. BACKGROUND**

The Commission issued its original Order approving a hedging plan for the Company in this docket on January 7, 2003. On January 21, 2003, Northern requested that the Commission either clarify or reconsider one aspect of the original Order related to the buying period for Price-Triggered hedging activity.

In the Supplemental Examiner's Report issued November 27, 2002, the Staff requested that the Company clarify how many months into the future it would be setting price targets for natural gas futures contracts pursuant to the "Price-Triggered" portion of its hedging plan. Supp. Exam. Rept. at 15, n. 6. The Examiners requested this clarification because futures contracts are available on the New York Mercantile Exchange (NYMEX) 72 months into the future, and they wished to determine whether NU intended to hedge gas purchases for that duration.

In its comments filed December 12, 2002, NU stated that: "futures contracts or options will be used out to a period of twelve months in advance for the price triggered component of the plan." As a result, the original Order in this docket contains the following passage as footnote 6 on page 12:

RMI's letter states that futures contracts or options will be used out to a period of 12 months in advance for the Price-Triggered component of the plan. Mr. DaFonte's testimony states that only futures contracts will be utilized and does not mention a 12-month forward limitation. In its Exceptions, the Company clarified its position stating that it would only look 12 months into the future regarding the Price-Triggered element of its plan. We interpret this to mean that if in January 2003 NU observed a \$2.99/MMbtu futures price for January or February 2004 (13 or 14 months into the future), it would not make purchases for those months. If, however, the \$2.99 price is observed for December 2003 (12 months into the future),

NU would make the appropriate 10% purchase assuming that the price trigger had not been reached and acted upon previously.

Northern now requests that the Commission reconsider this provision and establish that the buying period for Time-Triggered and Price-Triggered hedging will be the same 12-month period.

### III. ANALYSIS & DECISION

NU's petition states that the Company would prefer that the buying horizon for the Price-Triggered portion of its hedging plan extend beyond 12 months in order to make the buying horizon for the Price-Triggered component of the hedging plan consistent with the Time-Triggered component. Pursuant to the original Order, the time frame for the purchase of futures contracts for the next winter CGA period (November 2003 through April 2004) occurs between September 2002 and August 2003, while the buying period for this summer's CGA months, including May and October 2003, would have fallen between March 2002 and February 2003.<sup>1</sup> Therefore, for the Price-Triggered and Time-Triggered components of the plan to run on concurrent timetables, the Price-Triggered portion of the plan must look beyond 12 months into the future. In fact, the Price-Triggered element must look 19 to 20 months into the future because in September 2002 the Company would have been looking to make purchases out to April 2004 and in March 2002 it would have been looking out to October 2003. This is clearly at odds with footnote 6 of the January 7<sup>th</sup> Order.

The Company states that the effect of footnote 6 as currently written would "reduce the opportunity to purchase futures contracts at price targets below historical averages, thereby reducing the probability that the target percentage of the portfolio will be hedged and reducing the likely price stability benefits." Petition at 3. NU further notes that granting its request would make the overall hedging plan consistent with how NU currently operates for its New Hampshire division.

We agree that adherence to a strict twelve-month horizon would serve to unnecessarily limit the reach of the price targets contained in the Price-Triggered portion of the plan. We also believe that that our approval will not place NU's ratepayers at any appreciable additional risk and we therefore grant NU's request. Consequently, we modify this provision of Northern's hedging plan.

As a final note, we observed that Attachment A to the petition appears to show NU executing Time-Triggered hedges for the May and October 2003 during January and February 2003. We remind NU that we specifically did not approve doing so as is stated in the first paragraph of page 22 of our January 7<sup>th</sup> Order.

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<sup>1</sup> The Supplemental Examiners Report (at 12) and the January 7<sup>th</sup> Order (at 9) both incorrectly specified this buying period as April 2002 through March 2003.

Accordingly, we

**O R D E R**

That Northern Utilities, Inc.'s petition for reconsideration and modification of the buying period for Price-Triggered hedges established in footnote 6 of our January 7<sup>th</sup> Order in this Docket is granted as specified above.

Dated at Augusta, Maine, this 4<sup>th</sup> day of February, 2003.

**BY ORDER OF THE COMMISSION**

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Dennis L. Keschl  
Administrative Director

COMMISSIONERS VOTING FOR:      Welch  
   Diamond

COMMISSIONER ABSENT:              Nugent

## NOTICE OF RIGHTS TO REVIEW OR APPEAL

5 M.R.S.A. § 9061 requires the Public Utilities Commission to give each party to an adjudicatory proceeding written notice of the party's rights to review or appeal of its decision made at the conclusion of the adjudicatory proceeding. The methods of review or appeal of PUC decisions at the conclusion of an adjudicatory proceeding are as follows:

1. Reconsideration of the Commission's Order may be requested under Section 1004 of the Commission's Rules of Practice and Procedure (65-407 C.M.R.110) within 20 days of the date of the Order by filing a petition with the Commission stating the grounds upon which reconsideration is sought.
2. Appeal of a final decision of the Commission may be taken to the Law Court by filing, within **21 days** of the date of the Order, a Notice of Appeal with the Administrative Director of the Commission, pursuant to 35-A M.R.S.A. § 1320(1)-(4) and the Maine Rules of Appellate Procedure.
3. Additional court review of constitutional issues or issues involving the justness or reasonableness of rates may be had by the filing of an appeal with the Law Court, pursuant to 35-A M.R.S.A. § 1320(5).

Note: The attachment of this Notice to a document does not indicate the Commission's view that the particular document may be subject to review or appeal. Similarly, the failure of the Commission to attach a copy of this Notice to a document does not indicate the Commission's view that the document is not subject to review or appeal.